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**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**  
Baton Rouge, Louisiana

**FINANCIAL REPORT**

June 30, 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

7/16/08

# **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**

Baton Rouge, Louisiana

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Louisiana Health and Rehabilitation Center, Inc.  
Baton Rouge, Louisiana

We were engaged to audit the accompanying statement of financial position of the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC. (LHRC)** (a non-profit organization) as of June 30, 2007, and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management.

Substantially all the Organization's books of original entry; the general and subsidiary ledgers; related accounting manuals; records such as worksheets and spreadsheets supporting cost allocations, computations and reconciliations as well as substantially all corroborating evidence in support of the financial statements were destroyed in a fire, which also destroyed the Organization's administrative offices. The records that remain are not sufficient to permit the application of auditing procedures that would be adequate for us to express an opinion on the accompanying financial statements. Certain required disclosures were omitted from the Notes to the Financial Statements as a result of these inadequate records. Furthermore, we experienced the following with specific accounts and disclosures in the financial statements:

- We cannot determine whether all cash transactions were recorded as the bank reconciliations did not reconcile to the general ledger.
- We cannot determine whether investments disclosed in Note 2 are complete and accurate as we were unable to determine the classification of investment income or obtain information to support the cost of investments.
- We cannot determine whether accounts receivable and the related revenues are recorded in their entirety, and cannot obtain competent evidential matter to prepare disclosures required by U.S. generally accepted accounting principles.
- We cannot conclude whether all transactions related to property were recorded and identification of assets destroyed in the fire described above was not performed or recorded in the financial statements. Additionally, amounts reported on the depreciation schedule did not reconcile to the general ledger.
- We cannot conclude whether all accounts payable transactions are recorded. Furthermore, recorded expenses are not appropriately categorized as required by not-for-profit reporting standards.

- We cannot conclude whether LHRC complied with their loan covenants as LHRC could not provide copies of loan agreements.
- The Statement of Activities includes a line item titled "Unidentified Deposits" of approximately \$501,000. LHRC could not determine the reporting for these deposits; and therefore, could not determine whether the deposits relate to revenues, debt proceeds, related party or other transactions.
- We cannot determine whether the disclosures about related party transactions are complete and accurate as we were unable to examine all supporting documents that relate to these related party transactions in the financial statements.
- We were unable to determine, due to the lack of supporting records, whether LHRC prepared the financial statements in accordance with the accounting policies described in Note 1. Additionally, we cannot conclude whether the statements disclosed in Notes 2 through 10 are complete and accurate.
- We were unable to obtain a complete list of minutes for all board meetings and copies of all operating leases.
- We were unable to perform compliance tests relating to the federal and state funding received and are unable to ascertain the financial and legal impact to LHRC relating to the lack of records associated with grant receipts, expenses and compliance.

Since LHRC was not able to provide evidence in support of the accompanying financial statements and we were not able to apply auditing procedures to satisfy ourselves as to whether the financial statements are presented in accordance with generally accepted accounting principles, the scope of our work was not sufficient to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008 on our consideration of the **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** has not presented a schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as a supplement to, although not a required part of, the basic financial statements due to the reasons cited in the second paragraph.

*Faulle & Winkler, LLC*

Certified Public Accountants

Baton Rouge, Louisiana  
June 20, 2008

## LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

## STATEMENT OF FINANCIAL POSITION

June 30, 2007

## ASSETS

	<u>Amount</u>
<b>CURRENT ASSETS</b>	
Cash	\$ 554,404
Restricted cash	3,182
Investments	713,062
Receivables:	
Accounts	24,877
Grants	96,498
Prepaid expenses	<u>18,293</u>
Total current assets	1,410,316
<b>PROPERTY AND EQUIPMENT, net</b>	717,245
<b>DUE FROM EXECUTIVE DIRECTOR</b>	11,450
<b>OTHER</b>	<u>872</u>
Total assets	<u><u>\$ 2,139,883</u></u>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 9,407
Accrued expenses	52,369
Amounts held for others	3,182
Current portion of long term debt	<u>19,383</u>
Total current liabilities	84,341
<b>DUE TO RELATED PARTY</b>	23,274
<b>LONG-TERM DEBT, less current maturities</b>	<u>176,403</u>
Total liabilities	284,018
<b>NET ASSETS</b>	
Unrestricted	<u>1,855,865</u>
Total liabilities and net assets	<u><u>\$ 2,139,883</u></u>

The accompanying notes to the financial statements  
are an integral part of this statement.

**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**

Baton Rouge, Louisiana

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

<b>REVENUES</b>	<u><b>Amount</b></u>
Public Support:	
Grants - federal and other sources	\$ 1,933,979
Contributions from government agencies	251,602
Other:	
Investment income	<u>134,169</u>
Total revenues	2,319,750
<b>EXPENSES</b>	<u>2,814,443</u>
Decrease in net assets from operations	(494,693)
<b>OTHER ITEMS</b>	
Unidentified deposits	500,883
Theft loss	<u>(2,459)</u>
Increase in net assets	3,731
<b>NET ASSETS - UNRESTRICTED</b>	
Beginning of year	<u>1,852,134</u>
End of year	<u>\$ 1,855,865</u>

The accompanying notes to the financial statements  
are an integral part of this statement.

# LOUISIANA HEALTH AND REHABILITATION CENTER, INC.

Baton Rouge, Louisiana

## STATEMENT OF CASH FLOWS

For the year ended June 30, 2007

	<u>Amount</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 3,731
Adjustments to increase in net assets:	
Depreciation	49,994
Change in operating assets and liabilities:	
Decrease in receivables	78,977
Decrease in prepaid expenses and other assets	7,977
Decrease in accounts payable and other liabilities	<u>(50,155)</u>
Net cash provided by operating activities	<u>90,524</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(65,127)
Increase in investments	<u>(112,934)</u>
Net cash used by investing activities	<u>(178,061)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments on long-term debt	(65,162)
Payments from related parties, net	<u>39,125</u>
Net cash used by financing activities	<u>(26,037)</u>
Net decrease in cash	(113,574)
<b>CASH, including restricted cash</b>	
Beginning of year	<u>671,160</u>
End of year	<u>\$ 557,586</u>
<b>CASH</b>	
Cash	\$ 554,404
Restricted cash	<u>3,182</u>
Total cash	<u>\$ 557,586</u>

The accompanying notes to the financial statements  
are an integral part of this statement.



**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**

Baton Rouge, Louisiana

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operations**

Louisiana Health and Rehabilitation Center, Inc. (LHRC) is a non-profit corporation whose purpose is to provide therapeutic psychiatric programs to eliminate inappropriate and maladaptive behaviors. Their services are designed to help persons with developmental disabilities, and severe and persistent behavioral problems reach their maximum functioning level in the community.

All programs are operated in southern Louisiana and are primarily funded by the State of Louisiana agencies through the Department of Health and Hospitals.

**Basis of presentation**

The financial statements of LHRC have been prepared on the accrual basis of accounting.

LHRC reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. LHRC did not have any temporarily or permanently restricted net assets at June 30, 2007.

**Estimates**

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation and allowance for doubtful accounts.

**Revenue recognition**

Revenue from grants and contracts are recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of services provided.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and cash equivalents**

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts, except that cash and cash equivalents that represent client accounts are included with restricted cash.

Investments in mutual funds are classified as investments.

**Restricted Cash**

The Organization, as custodial agent, maintains cash for clients in several of its programs. These amounts are segregated from the LHRC's cash accounts.

**Investments and investment income**

Investments consist primarily of mutual funds. Investments have been recorded at market value, with the amount of unrealized gain or loss recorded in the statement of activities. However, if readily determinable fair values are not available, cost basis is used.

Investment income includes dividends and interest earned on investments, the net gain and/or loss from trade of investments, and the unrealized gain and/or loss resulting from market value adjustment to investments.

**Accounts receivable and allowance for doubtful accounts**

Accounts receivable are recorded at cost, net of an allowance for doubtful accounts. Due to the nature of the receivables, all amounts are considered to be collectible and, therefore, an allowance for doubtful accounts has not been recorded. LHRC does not require collateral for its receivables.

**Property and equipment**

Property and equipment are carried at cost. Additions, renewals, and betterments that extend the life of assets are capitalized; maintenance and repair expenditures are expensed as incurred. The cost of property and equipment sold or otherwise disposed and the accumulated depreciation thereon are eliminated from the property and related accumulated depreciation accounts, and any gain or loss is credited or charged to income.

Depreciation is provided using the straight-line method over the estimated useful lives of the property, ranging from five to forty years.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Vacation leave**

Unused vacation and sick leave lapse at year end, except that vacation may be awarded subsequently at the discretion of the Executive Director. Accordingly, amounts related to such absences, if any, have not been accrued.

**Fair value of financial instruments**

The carrying value of cash, receivables, accounts payable, and accrued expenses approximate fair value due to the short-term maturity of these instruments. None of the financial instruments are held for trading purposes.

**Income taxes**

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Pension Plan**

In 2005, LHRC adopted a 401(k) retirement plan with a 3% matching option. Under the provisions of the plan, employees may elect to defer a percentage of their compensation up to a maximum of \$15,000 annually. Salary deferrals and the related earnings are 100% vested and non-forfeitable. During the year ended June 30, 2007, the LHRC contributed \$17,589 to the plan.

These assets are held in the trust fund established under the Plan; the trust fund is independent of LHRC. The responsibility for administration of the plan is with Mutual of America Insurance Company.

**Advertising**

LHRC expenses advertising costs as incurred. Advertising expense for the year ended June 30, 2007 was \$5,882.

**NOTE 2 - INVESTMENTS**

Investments at June 30, 2007 were in mutual funds with a market (carrying) value of \$713,062. Investment income included in the Statement of Activities at June 30, 2007 was \$134,169.

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment, related service lives and accumulated depreciation at June 30, 2007, are as follows:

	<u>Estimated Service Lives</u>	<u>Amount</u>
Building	39-40 years	\$ 437,482
Leasehold improvements	39 years	162,207
Office equipment	3-5 years	38,837
Furniture and equipment	5-7 years	83,934
Vehicles	5 years	153,598
Land	-	<u>70,000</u>
		946,058
Less accumulated depreciation		<u>(228,813)</u>
		<u>\$ 717,245</u>

Depreciation expense was \$49,994 for the year ended June 30, 2007. As discussed in Note 8, certain property was destroyed in a fire at the administrative office. The destroyed items had not been identified at June 30, 2007 and therefore, have not been removed from the above table.

**NOTE 4 - LONG TERM DEBT**

Long-term debt consists of the following:

	<u>Amount</u>
6.5% note payable in 59 monthly installments of \$1,858 and one final payment of \$164,773, secured by building, and maturing August 2009.	\$ 186,152
5.5% note payable in 60 monthly installments of \$766, secured by land, and maturing August 2008.	<u>9,634</u>
Total debt	195,786
Less current maturities	<u>( 19,383)</u>
Long-term debt	<u>\$ 176,403</u>

**NOTE 4 - LONG TERM DEBT (CONTINUED)**

At June 30, 2007, future maturities of long-term debt consisted of the following:

<u>Year</u>	<u>Amount</u>
2008	\$ 19,383
2009	12,035
2010	<u>164,368</u>
	<u>\$ 195,786</u>

**NOTE 5 - RELATED PARTY TRANSACTIONS**

LHRC leased premises to Harmony Center, Inc. for the year ended June 30, 2007. The Executive Director of LHRC is a stockholder of Harmony Center, Inc. The amount of rental income is \$14,400 for the year ended June 30, 2007.

LHRC leased premises from Johnson Management Group for the year ended June 30, 2007. The Executive Director of LHRC is a managing member of the Johnson Management Group. The amount of rental expenses incurred under these leases was \$72,000 for the year ended June 30, 2007.

LHRC leased premises from Temple Properties, LLC, for the year ended June 30, 2007. The Executive Director of LHRC is a member of Temple Properties, LLC. The amount of rental expense incurred under these leases was \$52,800 for the year ended June 30, 2007.

LHRC rented office space to Louisiana Health & Rehab Options, Inc. (LHRO), a Louisiana corporation owned by the Executive Director. The amount of rental income earned by LHRC under the lease agreement totaled \$25,584 for the year ended June 30, 2007. At June 30, 2007, LHRC owed Louisiana Health & Rehab Options, Inc. \$23,274.

LHRC has advanced funds to the Executive Director in the form of payments for life insurance premiums totaling \$11,450 of June 30, 2007. The loan is non-interest bearing with no repayment terms. The amount recorded as due from the Executive Director is classified as long-term receivable in the accompanying financial statements since payment is not expected within one year.

LHRC had funds invested with Primerica securities and the agent for Primerica is the son of the Executive Director of LHRC.

**NOTE 6 - ECONOMIC DEPENDENCY**

LHRC derives its revenues from governmental sources as earned revenue or grants, the loss of which would have a material adverse effect on the Organization. During the year ended June 30, 2007, revenue derived from governmental sources accounted for the majority of support recorded by LHRC.

**NOTE 7 - CONCENTRATIONS OF CREDIT RISK**

Financial instruments which subject LHRC to concentrations of credit risk consist primarily of receivables. In addition, LHRC maintains cash in local banks, which may, at times, exceed the FDIC limits. Management believes the risk is limited.

**NOTE 8 - LOSS DUE TO FIRE / SUBSEQUENT EVENT**

Certain property and equipment was destroyed in two separate fires at the administrative office and Reality House in June 2007. The loss of the destroyed assets could not be determined at June 30, 2007. There was approximately \$664,000 in insurance proceeds received subsequent to year end as a result of these fires.

**NOTE 9 - THEFT LOSS**

During the year ended June 30, 2007, management has asserted that an employee misappropriated funds by using a stolen credit card and forging checks. The employee was immediately terminated. The amounts identified by management related to this misappropriation totaled \$2,459 in LHRC and \$29,232 in LHRO, a related entity. The loss has been reported as an other item on the respective statement of activities. Information supporting these allegations was submitted to the District Attorney who has not, as of this date, prosecuted the individual.

**NOTE 10 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash payments for interest for the year ended June 30, 2007 was \$14,793.

**Special Independent Auditors' Report**

**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**  
Baton Rouge, Louisiana

June 30, 2007



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Louisiana Health and Rehabilitation Center, Inc.  
Baton Rouge, Louisiana

We were engaged to audit the financial statements of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** (a non-profit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated June 20, 2008. We do not express an opinion on the financial statements because substantially all the Organization's books of original entry; the general and subsidiary ledgers; related accounting manuals; records such as worksheets and spreadsheets supporting cost allocations, computations and reconciliations as well as substantially all corroborating evidence in support of the financial statements were destroyed in a fire, which also destroyed the Organization's administrative offices. The records that remain are not sufficient to permit the application of auditing procedures that would be adequate for us to express an opinion on the accompanying financial statements.

**Internal Control over Financial Reporting**

Because of the reasons described in the first paragraph, we were unable to consider the Organization's internal control over financial reporting.

**Compliance and Other Matters**

For the reasons described in the first paragraph, we were unable to perform tests of the Organization's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

*Faulk & Winkler, LLC*

Certified Public Accountants

Baton Rouge, Louisiana  
June 20, 2008





**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Louisiana Health and Rehabilitation Center, Inc.  
Baton Rouge, Louisiana

**Compliance**

We were engaged to audit the compliance of **LOUISIANA HEALTH AND REHABILITATION CENTER, INC.** (a non-profit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Organization's management.

Substantially all the Organization's books of original entry; the general and subsidiary ledgers; related accounting manuals; records such as worksheets and spreadsheets supporting cost allocations, computations and reconciliations as well as substantially all corroborating evidence in support of the financial statements were destroyed in a fire, which also destroyed the Organization's administrative offices. The records that remain are not sufficient to permit the application of auditing procedures that would be adequate for us to express an opinion on the accompanying financial statements.

Because of the reasons described in the second paragraph, we were not able to obtain sufficient competent evidential matter to document and support activities allowed or unallowed, allowable cost/cost principles, cash management, eligibility, equipment and real property management, matching level of effort, period of availability of funds, procurement and suspension and debarment, program income, reporting, subrecipient monitoring and special tests and provisions. Therefore, we do not express an opinion on the Organization's compliance with requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

**Internal Control Over Compliance**

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. Because of the reasons described in the second paragraph, we were unable to consider the Organization's internal control over compliance requirements that could have a direct and material effect on a major federal program.

This report is intended solely for the information and use of the Organization's management and Board of Directors, the Louisiana Legislative Auditor and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

*Faull & Winkler, LLC*

Certified Public Accountants

Baton Rouge, Louisiana  
June 20, 2008

**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**  
Baton Rouge, Louisiana

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2007

**1) Summary of Auditors' Results:**

- A) The type of report issued on the financial statements: **Disclaimer of opinion**
- B) Reportable conditions in internal control were disclosed by the audit of financial statements: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**  
Material weaknesses: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**
- C) Noncompliance which is material to the financial statements: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**
- D) Reportable conditions in internal control over major programs: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**
- E) The type of report issued on compliance for major programs: **Disclaimer of opinion**
- F) Any audit findings which are required to be reported under Section 510 (a) of OMB Circular A-133: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**
- G) Major programs: **Not determinable due to records relating to expenditures were destroyed and therefore, expenditures that relate to grants were unidentifiable.**
- H) Dollar threshold used to distinguish between Type A and Type B programs: **\$500,000**
- I) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:  
**No**

- 2) Findings relating to the financial statements reported in accordance with Government Auditing Standards: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**
- 3) Findings and questioned cost relating to federal awards: **2007-1, 2007-2, 2007-3, 2007-4 and 2007-5**

**LOUISIANA HEALTH AND REHABILITATION CENTER, INC.**  
Baton Rouge, Louisiana

**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2007

**2007-1 Record Retention/Financial Statement Preparation**

**Observation:** The following observations were made regarding record retention and financial statement preparation:

In June 2007, a fire substantially destroyed the administrative offices including:

- LHRC's books of original entry including the general and subsidiary ledgers;
- Related accounting records, including third party invoices;
- Records such as worksheets and spreadsheets supporting cost allocations, computations and reconciliations;
- Substantially all corroborating evidence in support of the financial statements;

Due to this event, LHRC recreated the financial statements/general ledger from banking records. LHRC hired a contract accounting firm to perform the accounting and a trial balance, along with schedules to substantiate the amounts, was prepared. However, the following matters were observed:

- **Cash** - cash reconciliations prepared by the contract accounting firm did not reconcile to the general ledger. An entry was proposed to agree the general ledger to the bank reconciliations as follows:
  - General checking account was overstated by approximately \$54,000,
  - Payroll checking account was understated by approximately \$58,000
  - Saving account was overstated by approximately \$4,500.

LHRC was unable to reconcile the cash accounts to the general ledger requiring adjustment to be posted to miscellaneous expense. As a result, we are unable to determine whether all cash transactions, including restricted cash, have been recorded in the general ledger.

- **Investments** - investment statements for June 30, 2007 were obtained by the contract accounting firm, but, quarterly statements for the period July 2006 through March 2007 were not obtained. The year end investment statement did not reconcile to the general ledger by approximately \$73,000. Therefore, an entry to adjust the investment balance was recorded. The difference was posted to investment income. We were not able to determine the cost of the investments or the categorization of the investment income as required by GAAP was correct since no supporting detail is available from which to generate this information.
- **Accounts receivable and related revenues** - LHRC was not able to provide an aged subsidiary detail of accounts receivable. The amount reported was the balance owed at June 30, 2006. Based on the review of subsequent receipts for the period July 1, 2007 through August 31, 2007, the amount in the general ledger was overstated by approximately \$79,000, which was recorded as an adjustment to revenue. Additionally, all supporting documentation for revenues, such as copies of invoices, and cash logs were destroyed in the fire. Therefore, revenues recorded in the general ledger were based on deposits made into the bank accounts. There was not sufficient information to determine the type of revenue (i.e., grant income, rate reimbursement, or other applicable revenue types) from the deposit records. Therefore, revenue classification is not apparent from the information available. In an effort to substantiate state funds received, we obtained detail from the Louisiana Legislative Auditor's office of payments made by all Louisiana agencies to LHRC, which totaled \$1,015,485 that represents 46% of reported revenues. However, we could not obtain support for the remaining revenues disclosed on the schedule provided by the State that was received by LHRC.
- **Property** - LHRC provided a detail schedule of property and related depreciation. However, the amount of property recorded on the depreciation schedule did not reconcile to the general ledger by approximately \$19,000. Furthermore, the items destroyed in the fire were not identified or removed from the depreciation schedule and related financial statements. Additionally, there was no supporting documentation for items which had been capitalized during the year. Lastly, we were not able to determine whether disbursements coded as repair and maintenance should have been capitalized as no supporting documentation was available. As a result, we cannot determine whether the amount of property disclosed in the financial statements is accurate. Additionally, no efforts had been made to determine the insurance proceeds receivable or any associated net casualty loss incurred.
- **Accounts payable and related expenses** - LHRC did not record accounts payable in the general ledger for amounts owed to vendors at year end. A search for unrecorded liabilities was performed for the period July 1, 2007 through August 31, 2007 and a journal entry was recorded to increase the balance to approximately \$9,400. Additionally, all supporting documentation for expenses, such as copies of invoices, was destroyed by the fire for payments made during the year ended June 30, 2007. Expenses recorded in the general ledger were based on check copies obtained from LHRC's financial institution. Therefore, proper classification of expenditures and period of recording cannot be determined.

- **Net assets** - Changes to net assets are a function of revenues, expenses and certain limited other transactions. Because we cannot determine that revenues and expenses were valid and recorded in the proper period, changes in net assets and the resulting net asset balance in the financial statements may be materially misstated.
- **Related party transactions** - LHRC has a significant number of related party transactions, including transactions related to leasing of buildings, management fees, intercompany transactions with an affiliated organization, LHRO, investment of idle funds and loans to/from the executive director. Because of a lack of supporting documentation, we are unable to determine whether the financial statements and related footnote disclosures include all transactions between LHRC and its related parties. Additionally, intercompany balances between LHRO and LHRC were not reconciled at year end. An adjustment was made to reconcile these balances.
- **Minutes and other corporate documents** - Basic corporate documents such as board meeting minutes, debt, lease, and grant agreements needed to corroborate information in the financial statements were either incomplete or not available. Documentation to support the theft loss alleged by management was also unavailable.
- **Internal control over financial reporting and compliance and other matters** - Due to the overall lack of supporting documentation, we were not able to perform testing of LHRC's internal control over financial reporting that is required when an entity receives state and/or federal funds, nor were we able to perform required tests of the LHRC's compliance with certain provisions of laws, regulations, contracts and grant agreements. In addition, LHRC could not determine whether it had any major programs for the year ended June 30, 2007 nor could they prepare the required schedule of expenditures of federal awards, as this schedule reports federal expenditures. Finally, the trial balance did not identify expenses by programs because of the lack of supporting documentation.

**Recommendation:** First, we recommend management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Daily electronic data backup procedures which include appropriate secured storage,
- Secure accounting records in a fire proof safe or offsite location,
- Weekly and monthly backups secured through online services, and
- LHRC should perform periodic tests on backups to ensure the appropriate data is being stored and can be accessed.

Second, management must determine the proper balances of the statement of financial position at June 30, 2007. To achieve this we recommend the following:

- The cash accounts are examined to identify errors in the bank reconciliations and/or general ledger and adjustments made accordingly.
- The detail property depreciation schedule be examined to identify destroyed items to be removed from the detail, insurance proceeds should be allocated to the destroyed items, and a receivable for insurance proceeds and any resulting casualty loss be calculated and recorded in the 2007 financial statements.
- Accounts receivable and payable, as determined through procedures noted above, be monitored to assure that subsequent receipts and disbursements are posted to these accounts rather than to fiscal year ending June 30, 2008 activity. In addition, because receipts on billings can be several months after the services were provided, efforts should be made to identify those receipts after August 31, 2007 that relate to grants/services provided in fiscal year ended 2007. These should be accumulated and, if material, posted to fiscal year ended 2007.
- LHRC should be diligent about maintaining documentation related to federal awards. We recommend that revenue invoices, supporting logs used to create the billings and documents and payroll information related to direct expenses for those programs be subject to the same record retention procedures noted above. Maintenance of these supporting records are imperative in obtaining reports on 1) the internal control over financial reporting and 2) compliance with certain provisions of laws, regulations, contracts and grants that is required when an entity receives state and/or federal funds. As the majority of LHRC's income is from these sources, every effort should be expended to achieve this goal.
- Basic corporate records, such as debt and lease agreements should be obtained.
- Financial statements for 2008 should be prepared to comply with U.S. generally accepted accounting principles. In particular, revenue should be recorded to itemize significant grant revenue. Additionally, expense should be segregated by major function, program services and administrative, but also include appropriate line item classifications, such as personnel.
- LHRC should determine if the related party transactions currently entered into are in compliance with the agreements, as well as state law, relating to governmental funding currently received.

**Management's Corrective Action Plan:** As to the first matter, management has implemented a disaster recovery plan that includes backing up all data off site on a daily basis electronically through a local company located in Baton Rouge, Louisiana. Furthermore, such data is stored electronically outside of the Baton Rouge region.

Secondly, LHRC is aware of the shortcomings in its ability to fully recreate the financial statements at June 30, 2007. Significant efforts were made to ensure that the transactions beginning on July 1, 2007 were recorded. However, efforts will be made to determine that cash, accounts receivable, insurance receivable, property, and accounts payable balances at June 30, 2007 are complete and supported by detail schedules. We understand that determining the correct beginning balances is essential.

Lastly, management is aware of the importance of maintaining proper supporting documents for all transactions, particularly those related to federal and state awards. We have implemented additional retention policies so that information required for future audits will be available.

#### **2007-2 Segregation of Duties**

**Observation:** There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small number of personnel involved in the financial reporting process. These limitations prohibit the opportunity for meaningful segregation of duties.

**Recommendation:** We recommend that LHRC continue the current process of:

- Preparing a monthly closeout binder including a reconciliation of all general ledger balance sheet accounts, and
- Monthly review of financial results compared to budgeted amounts with the Board of Directors.

Additionally, we recommend that LHRC implement the following:

- The unopened monthly bank statement (including all cancelled checks) be reviewed by the Executive Director or a board member,
- Require dual signatures on all check disbursements, with the Executive Director as one of the designated signers,
- The preparation of the bank reconciliation by the Assistant Accountant and the subsequent review by the Executive Director and contract accounting firm,
- Journal entries posted to the general ledger should be reviewed by the Executive Director and contract accounting firm on a monthly basis.

**Management's Corrective Action Plan:** Due to the limited number of personnel involved in the accounting process, the achievement of adequate segregation of duties is desirable to management but is cost prohibitive at this time. However, the Executive Director approves the majority of disbursements of LHRC.



### **2007-3 Preparation of Financial Statements**

**Observation:** LHRC relies on its auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, the auditors cannot be considered part of the LHRC's internal control structure, and because of limitations of the LHRC's accounting staff, the design of the internal control structure does not otherwise include procedures to prepare external financial statements and related disclosures in conformity with generally accepted accounting principles.

**Recommendation:** LHRC should consider engaging an accounting firm to provide advisory and oversight to prepare external financial statements and related disclosures in conformity with generally accepted accounting principles.

**Management's Corrective Action Plan:** LHRC plans to continue to use its auditors to prepare the external financial statements.

### **2007-4 Theft Loss**

**Observation:** As described in Note 9 of the financial statements, management alleged a theft of funds by an employee during 2007 by using a stolen credit card and forging check disbursements. Management has recorded an expense for 2007 of \$2,459.

LHRC contacted local law enforcement officials and an arrest has been made. Management intends to pursue this matter vigorously.

**Recommendation:** As reported in Item 2007-2, management should implement control procedures to closely scrutinize credit card and check disbursements to avoid similar experiences in the future.

**Management's corrective action plan:** Management will closely monitor these sensitive areas in the future so that a similar situation is not experienced.

### **2007-5 State/Federal Reporting Requirements**

**Observation:** During the engagement, it was noted that LHRC was not in compliance with the reporting requirements for recipients of state and/or federal funding. Those requirements included:

- Submitting an audited financial statements by the reporting deadline of December 31, 2007,
- Preparing a schedule of federal financial awards as a supplemental schedule to the financial statements,
- Filing of a non-profit informational tax return, Form 990, before the extended deadline of May 15, 2008, for the June 30, 2007 return.

As to the first two items, LHRC applied for an extension with the Legislative Auditor's office, which was granted to June 30, 2008. However, the extension provided only for the continued receipt of funding.

As to the last item, the contract accountant has informed the IRS that the return will be submitted after the deadline due to the extenuating circumstances. Penalties related to late filing may be assessed at that time.

Reporting requirements for previous years were met with out exception.

**Recommendation:** As noted in finding 2007-1, substantially all books of original entry; the general and subsidiary ledgers; related accounting manuals; records such as worksheets and spreadsheets supporting cost allocations, computations and reconciliations as well as substantially all corroborating evidence in support of the financial statements were destroyed in a fire, which also destroyed the administrative offices. LHRC recreated the financial statements/general ledger from banking records. This process required a significant amount of time and resulted in insufficient detail to prepare the schedule of federal financial awards.

**Management's response:** Management contends that the non-compliance is a result of the unusual circumstances encountered after the fire. LHRC has put forth significant effort to restore the accounting system for 2008 and intends to meet future reporting requirements.